BANKERS AND BROKERS.

THE FINANCIAL SITUATION.

It became pretty obvious last week that it was cheap money a good deal more than prospects for improved business—considerable as these are admitted to be—that has been behind the upward movement of security prices; and the curious phase of the matter has developed that bankers, business men, great speculators and representatives of all sorts of financial interests are found confessing that the current money market is very puzzling to them. The most satisfying explanation of the money plethora is that the country's reserves of invisible credit—that is to say, the resources of trust companies, of private lenders and others who make few if any reports of their operations, are not compelled by law to keep any cash reserve against liabilities, and can place all their funds in the hands of borrowers if they so desire—are being drawn on to a far greater extent than appears on the surface. The development in our country of trust companies and similar institutions has, in the last two years alone, been great, and financial statistics which do not include their transactions are of small account as showing the state of general financial operations. If the theory that has been advanced regarding the ease of money is well founded, our financial concerns are clearly not in such strong shape as they look to be. They may not be at all in dangerous condition, but their outward form, nevertheless, speaks falsely.

The hope of a correct understanding of the matter seems to be that afforded by a comparison of the statistics of the increase in the country's total money supply and of total bank deposits, as this is made possible by the estimates thereof taken by the Treasury Department at the end of each year. Taking the figures at the end of last year we find that in a ten year period the money in the country has increased $946,000,000, but that bank deposits have increased $4,926,000,000. Large as the increase in the stock of money has been, the expansion of credit has far outrun it. The actual proportion of cash held by the banks with which to meet deposit liabilities was at the end of last year only 8.8 per cent., the smallest ever known in our financial history; and there is, of course, no doubt that the showing at the end of this year will be more unfavorable still. It may be said that all such phenomena as these are inseparable from the development of the modern credit system; but it is to be remembered that another inseparable accompaniment of the system is an occasional tumbling down of the credit superstructure when it becomes top heavy. How, it may be asked, will the case stand when the business of the country, now visibly beginning to evince new life, makes larger and larger demands each day upon Wall Street's 2 per cent. money market; and what will be the case if after a time it should be discovered that business had improved only moderately and that the profits of railroad and other corporations whose shares have recently advanced in price so hugely are not as large as hope and prophecy made out?

It may not be uninteresting, and it certainly is important, to examine briefly at this time into the grounds of the contention that is now, or at least has been, so strongly urged in Wall Street, that cheap money is a substantial force making for a permanent advance in the price of stocks. Let us start with the assumption that there is actually in progress a "gold inflation" of prices in our country caused by the unexpected increase in the quantity or supply of the metal that is the world's standard of value. Does this of itself secure a lasting character to the rise in prices that has occurred? It is to be noted, in the first place, of course, that those who use this argument are, unconsciously it may be, but still unmistakably, adopting the old quantitative theory of money which has lain at the bottom of all the money inflation heresies in all countries for the last 300 years of civilized times. If this doctrine now so urgently pressed as true by speculators is sound, Mr. Bryan and "Coin" Harvey wrote and spoke what was not simply true but was veritable financial gospel. All that these men ever asserted was that "more money" was what was needed to make the nation prosperous, and if they and a good portion of Wall Street at the present day are correct in their ideas, the world has been persistently blind to a method of securing national prosperity in the easiest and simplest manner. Nor does it alter the matter at all, so far as the present question is concerned, that the inflation that is going on is a "gold inflation," rather than an old-fashioned paper expansion of credit. The effect upon prices is the same. In both instances the purchasing power of money is cheapened. In both cases it takes more money than it did before to buy a given quantity of anything, and hence, as expressed in terms of money, prices of commodities rise. In both cases the creditor is compelled to take payment of his debts in a depreciated circulating medium, that is, one that buys less than it did when the debt was contracted. In both cases the same change in the relation of the two great classes of population of a country takes place, namely, that the condition of the debtor and producing class is temporarily bettered and the condition of the creditor and consuming class is temporarily made worse. To observe the true nature of such a change as this in financial conditions, even if it takes place only in degree, it is only necessary to imagine what would happen if there was a "gold inflation" on a really large scale. There would result a gold demonetization. The purchasing power of our standard money would become so feeble that its use as a standard would disappear. Possessors of fixed incomes would find that their incomes were paid in what was practically waste paper. Bonds issued long since to secure payment of a given sum of money at a given time, and considered at the time of issue to be the choicest of investment securities, would shrink in value incalculably. A demoralization of business and finance would occur such as would surpass all similar exhibitions of the kind in human experience; and yet logically, according to the abundance of money theory, this era should be one of Utopian affluence and well being.

The fact is that there is something else besides the quantity of money in a country that affects the value of property there. Wealth does not consist of money, but of the necessities, comforts and luxuries of life; and if, for any cause, these necessities, comforts and luxuries sell at so high a price that the consuming portion of the population is not able to purchase them freely with the fruits of their labor, that country is distressed and poverty stricken, even though every grain of soil in its territory were a grain of gold. All speculation in commodity and security prices based solely upon a temporarily excessive supply of money is as baseless and harmful as anything that can be imagined. The vital factor affecting values is not the current money supply, but the intrinsic condition of the country's business, the earning power of the railroads, the flourishing state of this or that industry as measured by the profitable sale of its products, and above all the savings of the people over and above what they are compelled to expend for the means of livelihood. We may advance as high as we will the price of this or that stock, taking advantage of a low money market and the complaisant banks who are willing to make loans on the stock as collateral security, but unless the income of the corporation represented by the stock increases in equal measure, our speculation, however successful for a little time, will be permanently in vain. The way these things always turn out is, of course, that nature applies checks in the way of correction of any undue inflation of a country's circulating medium. The high prices for commodities which the inflation has brought about causes the imports of the country to increase in proportion to its exports, so that the country's "foreign trade balance" becomes lower, and the influence of this fact, added to that of the low rate of interest which prevails in the country, as compared with that of other nations, causes gold to be exported from the land. For a time an unhealthy and fleeting impulse is given to home production of commodities, as for a brief period an equally unhealthy and fleeting spur is given to prices of securities; but, because of the high prices, home consumption tends relatively to decrease, and, with foreign markets gradually closing, overproduction follows. More money is constantly required to carry stocks bought on margin and to conduct business operations, until finally the long depressed interest rates rise, and a period of liquidation sets things right again. Business affairs in our own country may not at present be exactly typical of the theoretical condition here presented, but they are enough so to make a suggestive comparison. Our imports last month and for the ten months of the year were the largest on record, while the high prices of our breadstuffs, once our leading article of export, have so limited our shipments abroad of these commodities that such shipments are now less than at any time for a quarter of a century. Our exports of wheat, save from the Pacific Coast, have almost absolutely ceased, while during the year our exports of flour have been cut down more than one-third and are now dwindling at a much more rapid rate. True, our exports of manufactured articles show on their face an increase which nearly makes good the loss on our foreign sales of staple products; but these figures are regarded in all well informed commercial circles as being extremely misleading. Taking them for a series of years they prove, apparently, that the United States has a trade balance in its favor of many billions of dollars and is now one of the largest, if not the largest, of creditor nations. They prove too much. Just why, it is not necessary here to discuss. Despite this supposed favorable trade balance and the prevalence of a season when we are normally importing gold, we are exporting gold at a large rate and are likely to continue doing so. Our bank loans, made largely by speculative buying of stocks, stand at record figures, and must face the necessity, if business develops as it is hoped it will, of a requisition for more money in order to "hold prices" than has ever before been known. Money rates still remain low, but it is clear that all the forces that have been mentioned are steadily working to elevate them; and these elements are now additionally helped by an ingathering of funds from the banks by the Government, owing to the deficit in our national finances.

Our large importations of foreign commodities in the year would, it might be supposed, swell the total of our customs collections, but the singular fact is that while the value of our imports of non-dutiable merchandise has increased in the fiscal year thus far $28,773,977, the dutiable merchandise imported has decreased in value $25,727,881, so that our receipts from customs duties have been diminished. Taking customs and internal revenues together, it is probable that the Government's source of income will yield a little less this year than it did last; while, on the other hand, Government expenditures have so enlarged for all purposes that a very considerable difference exists on the wrong side of the ledger between the Government's income and its expenses. This difference is likely to be considerably increased in the next fiscal year, for in spite of rigorous efforts to reduce Government expenses it is a practical certainty that these outlays in the coming fiscal year will be much greater in future than they have been in the past. There has been no river and harbor appropriation bill for two years and heavy expenditures on this account must probably be authorized at the coming session of Congress. Other expenditures in accordance with programmes already laid down, such as the building at West Point and Annapolis, the large constructions in the city of Washington, and the great expenditures on account of the army and navy, will increase rather than diminish the Government's deficit. As there is now in the Treasury only a little more than $10,000,000 in cash actually available for distribution, the call upon the depository banks for $25,000,000 out of the public money, payable in two installments before March 15, was inevitable; and in view of the figures that have been given it must be considered as almost certain that this call will be followed by a second one and that it is not impossible that the time of payment on the first call must be hastened. Thus, slowly but surely another cause of the country's increased money supply in the last two years, namely, the deposit of practically all the funds of the Government in the national banks where they were quickly available to borrowers, is being removed.

FINANCIAL AND COMMERCIAL.

RAILROAD AND OTHER BONDS.

Sales.		High-est.	Low-est.	Clos-ing.	Net Ch'ge.	1904 High.	1904 Low.
7	Adams Ex 4s..	103½	103	103½	+½	103½	100¾
205	Am H & L 6s..	95½	88	95½	+7½	95½	70
39	Am Spts 1st 6s	95	94	95	+1½	95	82
1815	Am Tob ctf 6s	111½	110	110¾	−¼	111½	108¾
4586	Am Tob ctf 4s	71½	69½	69⅞	−⅝	71½	63⅜
14	Ann Ar 1st 4s.	97⅛	96¾	97⅛	+⅜	97⅝	91⅞
475	A T & S F 4s...	103	102½	102⅞	+⅛	104	98⅞

RAILROAD AND OTHER SHARES.

Sales.	Stocks.	High-est.	Low-est.	Clos-ing.	Net Change.
2500	Den & Rio G pf	87½	86	86	−1½
3600	Det United Ry	77⅞	76	77⅞	+1⅞
17500	Det Southern	10	7½	8⅞	+2⅜
61300	Det Southern pf	30¾	16¾	26	+12
600	Distilling Co pf	50	50	50	+16
11400	Dis Securities	37½	36⅜	37	+¼
100	Diamond Match	141	141	141	+13
7100	Dul SS & A	14⅞	13½	13⅞	+⅜
11000	Dul SS & A pf	28⅛	23½	26	+3½
291000	Erie	40⅜	38⅜	39⅛	−1⅛
16300	Erie 1st pf	73⅞	72⅞	73	−⅞
7000	Erie 2d pf	56	54	54	−1⅜
2500	Fed Min & Smelt	53	45	53½	+8½
1800	Fed Min & Sm pf	79⅝	72	74	−6
200	Ft W & D C	46	46	46	−½
200	Gen Chem Co pf	97⅞	96½	97⅞	+1⅞
18400	Gen Electric	185⅝	180	185	+5

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BANKERS AND BROKERS.

NATIONAL BANKS.

TRUST COMPANIES.